REED STENHOUSE

OVER A CENTURY OF GROWTH AND DEVELOPMENT INTO AN INTERNATIONAL INSURANCE AND REINSURANCE BROKERAGE AND RISK MANAGEMENT ORGANIZATION

ANNUAL REPORT 1980

REED STENHOUSE COMPANIES LIMITED
Insurance and Reinsurance Brokers and Risk Managers
P.O. Box 250, Toronto-Dominion Centre,
Toronto, Canada M5K 1J6 (416) 868-5500

Principal Subsidiaries and Affiliates

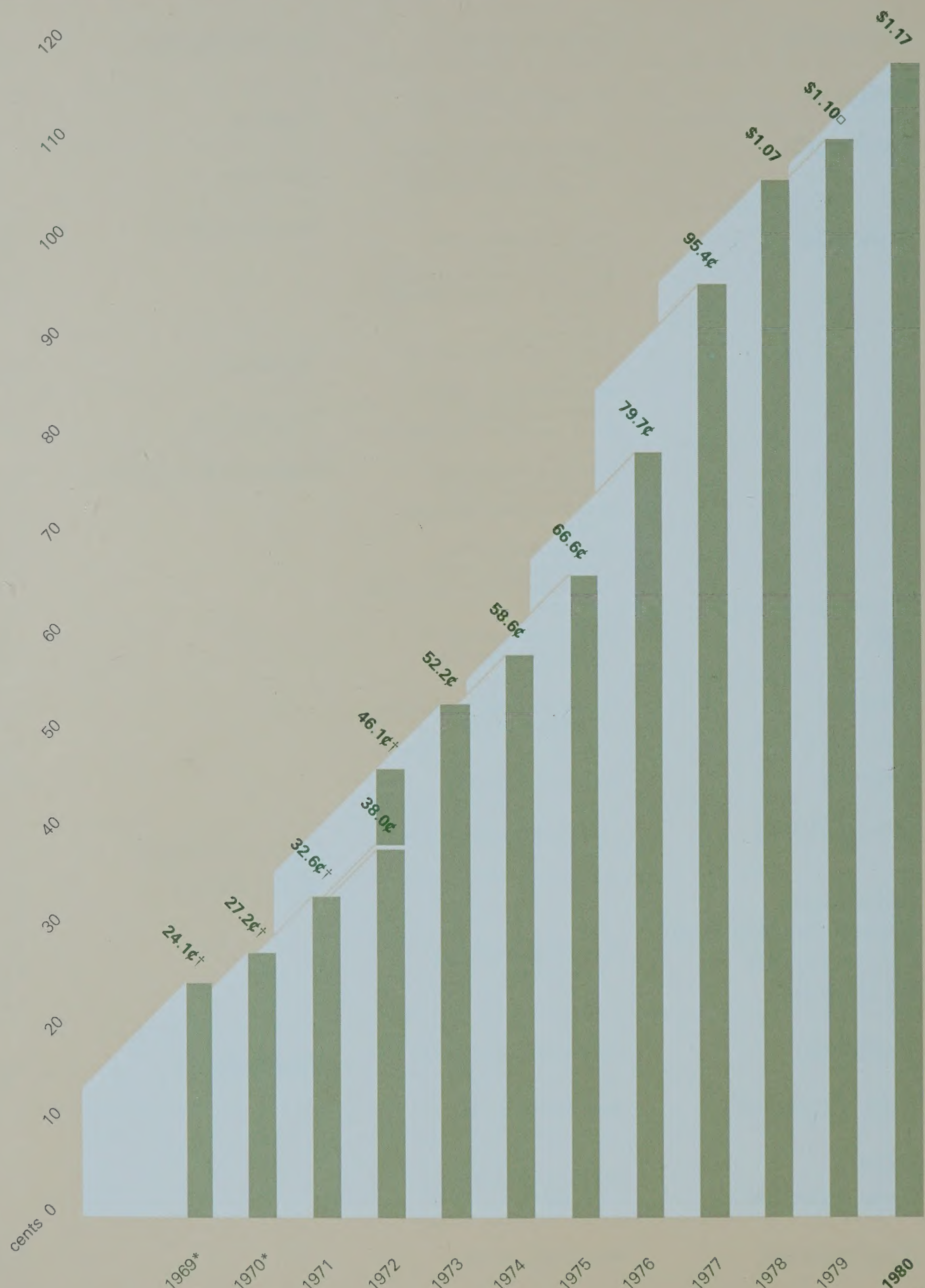
Australia	Reed Stenhouse Ltd.
Belgium	N.V. Reed Stenhouse S.A.
Bermuda	Insurance Managers Limited Reed Stenhouse International Insurance Services Limited
Canada	Reed Stenhouse Limited Ducketts Limited Roy, Arsenault & Associés Inc. Société de Courtage Meloche Limitée J. Meloche Inc. Monnex Insurance Brokers Limited Reed Stenhouse Personal Insurance Limited Sonef Insurance Management Limited Reed Risk Management International Limited Reed Stenhouse Associates Limited Universal Reinsurance Intermediaries Limited Crosbie Reed Stenhouse Limited
Fiji	Reed Stenhouse Sullivan (Pacific Islands) Ltd.
France	Société Générale de Courtage d'Assurances S.A.
Greece	Sten-Re (Greece) Ltd.
Hong Kong	Reed Stenhouse South China Ltd.
Lebanon, Saudi Arabia and United Arab Emirates	Reed Stenhouse Middle East S.A.R.L.
Malaysia	Reed Stenhouse Leow Sdn. Bhd.
New Zealand	Reed Stenhouse Ltd.
Papua New Guinea	Reed Stenhouse (P.N.G.) Pty. Ltd.
Philippines	Reed Stenhouse Inc.
Republic of Ireland	Reed Stenhouse Ltd.
Singapore	Reed Stenhouse Leow Pte. Ltd.
South Africa	Stenhouse Hogg Robinson (Pty.) Ltd.
Spain	Sten-Re S.A.
Sweden	J. Akerman A.B.
Switzerland	Reed Stenhouse International S.A. Caviezel A.G. Reinsurance Underwriting Agency A.G.
Taiwan	Reed Stenhouse Taiwan Ltd.
Thailand	Reed Stenhouse Jenkid Ltd.
United Kingdom	Reed Stenhouse & Partners Ltd. Reed Stenhouse Ltd. Reed Stenhouse U.K. Ltd. Reed Stenhouse Marketing Ltd. Sten-Re Ltd. Sir William Garthwaite (Reinsurance) Ltd. Stenhouse Reed Shaw (Underwriting Agencies) Ltd. Reed Stenhouse Benefit Consultants Ltd. Julian Gibbs Holdings Ltd. Reed Stenhouse Pension Services Ltd. Reed Stenhouse Management Services Ltd. Reed Stenhouse International Ltd.
United States of America	Reed Stenhouse Inc. Great Eastern Associates Inc. Reed Risk Management Inc. Reed Stenhouse International Inc. Sten-Re Cole & Associates Inc. Reed Stenhouse Balanced Pensions and Profit Sharing Plans, Inc.
Zimbabwe	Stenhouse Hogg Robinson Zimbabwe (Pvt.) Ltd.

Une version française du présent rapport est disponible sur demande à l'adresse suivante :

Le Secrétaire
Les Compagnies Reed Stenhouse, Limitée
Boîte postale 250
Toronto-Dominion Centre
Toronto Canada M5K 1J6

Financial Highlights

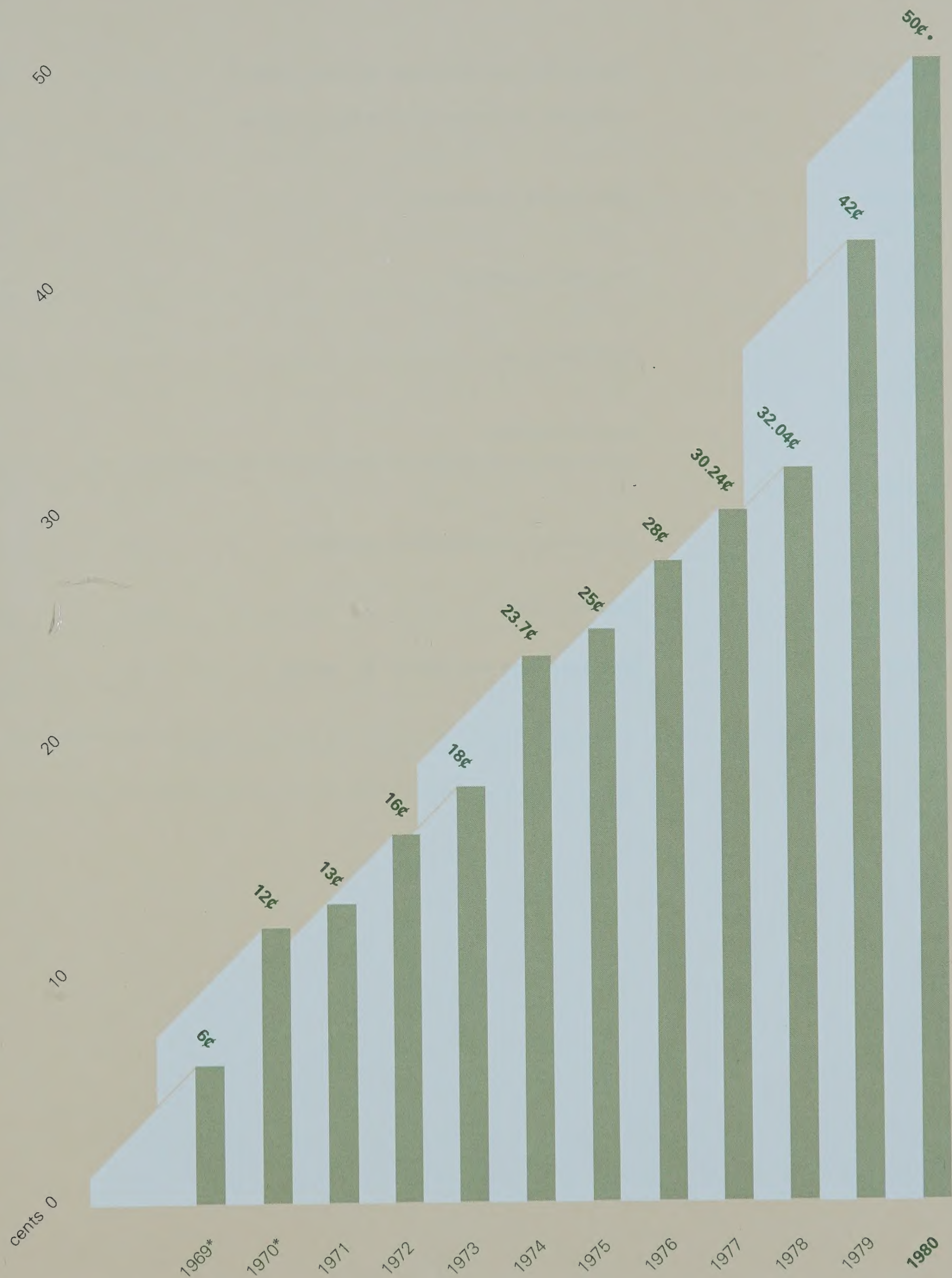
Net Earnings Per Share



†The merger with Reed Stenhouse & Partners Limited effective October 1, 1972 was accounted for as a pooling of interests. The restated net earnings per share for 1972 reflect this accounting concept. Net earnings per share for 1969-1971 are on an historical basis as it is not practicable to restate those amounts for the merger with Reed Stenhouse & Partners Limited.

□ In fiscal year 1979, an extraordinary item increased the net earnings per share to $1.28 from a net operating profit of $1.10 per share.

Dividends Per Share



*Adjusted to reflect share split in 1971.
• Current indicated annual dividend rate is 56¢ per share.

Ten Year Summary of Operating Results

(in thousands)

	1971†	1972†
Commissions and fees earned – net	$17,905	$22,029
Interest, dividend and rental income	686	675
	18,591	22,704
Operating expenses	14,352	17,808
	4,239	4,896
Interest expense	18	96
	4,221	4,800
Income taxes	2,158	2,322
	2,063	2,478
Add (deduct)		
Earnings from affiliates less minority interests		
	2,063	2,478
Reduction of intangible assets		
Net earnings	$ 2,063	$ 2,478
Net earnings per Class "A" share	32.6¢	38.0¢

†The figures for 1971 and 1972 are the historic earnings of the company prior to its merger with Reed Stenhouse & Partners Limited and these figures have not been restated to reflect the merger.

‡From 1973 the figures include the consolidated earnings of Reed Stenhouse & Partners Limited which merged with the company effective October 1, 1972.

1973‡	1974	1975	1976	1977	1978	1979	**1980**
$56,742	$75,166	$92,768	$105,313	$127,599	$152,955	$179,615	**$208,332**
2,906	5,476	5,792	6,604	7,919	9,240	12,950	**18,028**
59,648	80,642	98,560	111,917	135,518	162,195	192,565	**226,360**
44,664	61,639	75,136	85,324	104,462	127,305	155,577	**187 459**
14,984	19,003	23,424	26,593	31,056	34,890	36,988	**38,901**
198	1,342	3,638	2,651	2,290	2,111	2,678	**3,504**
14,786	17,661	19,786	23,942	28,766	32,779	34,310	**35,397**
7,047	8,814	9,472	11,694	13,970	16,332	17,402	**17,357**
7,739	8,847	10,314	12,248	14,796	16,447	16,908	**18,040**
(49)	(102)	(107)	(39)	(200)	(31)	84	**82**
7,690	8,745	10,207	12,209	14,596	16,416	16,992	**18,122**
	(37)	(303)	(369)	(396)	(387)	(407)	**(506)**
$ 7,690	$ 8,708	$ 9,904	$ 11,840	$ 14,200	$ 16,029	$ 16,585*	**$ 17,616**
52.2¢	58.6¢	66.6¢	79.7¢	95.4¢	$1.07	$1.10*	**$1.17**

*Net earnings for 1979 are before an extraordinary item.

+3%   +6%

Report to Shareholders

The past year was one of adjustment for your company and the insurance broking industry as a whole. Revenues for the year increased 18 per cent, a creditable achievement in the light of the uncertain international economic climate that prevailed. Net earnings from operations rose for the 12th consecutive year but accelerating costs and programmed reinvestment held earnings growth to 6 per cent, a rate which did not keep pace with inflation.

A proper assessment of achievement cannot be found in the mere examination of financial results. Such assessment requires an awareness of the tangible investment in the company's ability to service insurance requirements on a worldwide basis in the future. Among these are absorbed expenses related to our expansion into the U.S. market, the building of our international aviation facility, the enhancement of our servicing capability in the energy sector and the expansion of our employee benefit activities. The total investment of expense dollars, when a company is building for the future, tends to be overlooked in a brief examination of profits. This could be true in the case of your company's performance in fiscal 1980.

We have continued our policy of investing in people and concentrating on areas of our operations which we believe will contribute both to national and international results in the medium to long term. In periods of pressure on margins and earnings we have to monitor carefully the use of our resources and balance the short with the long term as we continue to expand. We believe it is in the interest of our shareholders to continue to develop our business, possibly at the expense of immediately reportable earnings. Many changes are taking place in our industry and we must be in a position to take advantage of these for our future benefit.

Notwithstanding our interest in having resources available, be they for expense or capital investment, we enjoy a material advantage in not having to finance inventories or the acquisition, replacement and maintenance of major fixed assets. We thus not only largely avoid the burden of current higher interest rates and preoccupation with cash flow, but on the contrary anticipate continuing to distribute a noticeable proportion of our earnings in dividends.

During the fiscal year the dividend was increased from an annual rate of 48 cents to 56 cents per share. Although this represents an improvement in the dividend payout ratio, it is in keeping with the company's policy of disbursing between 40 and 50 percent of earnings to shareholders.

A brief review of your company's activities worldwide illustrates the advantages of the geographical scope of our operations. The Canadian company, strengthened by key adjustments to the organizational structure together with good business development and expense control, produced much improved results. The U.S. company, while continuing to develop and contribute to our worldwide efforts, suffered more noticeably from low insurance premium rates as well as a softening U.S. economy. These factors, together with continuing programmed acquisition costs and a substantial provision for an overdue account, produced an operating loss. In the United Kingdom, we had anticipated that the very severe economic conditions being experienced by the private sector would not have affected our performance until our 1981 financial year.

However, in the final quarter, which historically has been a very strong contributor to the annual results in the U.K., we experienced a considerable reduction in revenues and consequently in earnings. Results for the full year were thus held to a level just below the previous period. In spite of market conditions, improved profitability was recorded in Australia and New Zealand. Our operations in South East Asia, Southern Africa, France and Belgium also made an increased contribution to the results of the group.

We maintained our policy of expanding our operations nationally and internationally with several acquisitions in Canada, the United States and the United Kingdom. Subsequent to the end of the financial year, approval was obtained under the Canadian Foreign Investment Review Act to acquire 49% of Crosbie & Company Limited, an insurance broker based in St. John's, Newfoundland, and we extended our European interests by forming a joint venture in Spain with Spanish partners.

Our market penetration in the United States, although we have established a solid base, is still comparatively low when measured against our strong position in Canada, the United Kingdom and elsewhere. Our commitment to further development in the U.S. remains unabated. As part of this commitment, at the end of the financial year we increased the share capital of our U.S. holding company to place it in a better position to take advantage of future opportunities.

On 31st. March 1980, the New York Insurance Exchange was opened. Your company has two insurance broker memberships on the Exchange and participates as a joint manager of syndicates through Continental Reed Stenhouse Management Company. The Maiden Lane Syndicate, managed by this company, was in existence prior to the opening of the exchange and started underwriting on the first day of business. It comprises eleven insurance companies from nine countries. We believe that the Exchange will have growing importance once the insurance market changes and when certain restrictions on operations are removed from it. To that end we are in the course of completing the South Place Syndicate which will also include members from a number of countries including Canada.

In London in June of last year, the report of the Fisher Working Party was published regarding self-regulation at Lloyd's. The report was well received and subsequently approved by Lloyd's members and embodied in a bill to the United Kingdom Parliament. We welcome the improvements proposed for Lloyd's, the world's most important insurance market.

Last year I referred to the reorganization of the management structure of your company. I am pleased to report that this reorganization has been a success and the closer involvement of operating management in the decisions of the Executive Committee and Board has, I believe, proved very beneficial. Mr. Peter G. Leitch was recently appointed President and Chief Executive Officer of Reed Stenhouse Inc., our main U.S. operating company. Your Directors are pleased to present him for election to the Board and plan to nominate him for membership on the Executive Committee.

Last September, The Honourable John B. Aird resigned as Chairman and as a Director of the company upon his appointment as Lieutenant Governor of the Province of Ontario. His very valuable contribution to this company and its predecessors over the past twenty years will be missed and we take this opportunity to wish him well in his new position.

Your Directors are pleased to nominate Mr. W. Douglas H. Gardiner as a Director and, subject to election by the shareholders, propose to appoint him as Chairman of the Board. Mr. Gardiner is a Director of the Royal Bank of Canada, having recently retired as Vice Chairman, and serves on the board of a number of major Canadian companies.

With the recent return of interest rates to record levels in North America and the sustainment of rates at high levels in the U.K. and Europe, we do not expect insurance markets to alter until early 1982. When the change does take place, we do not anticipate that we will see increases in insurance rates similar to those experienced in 1974/75. At that time extremely low stock market valuations existed which also adversely affected insurers' solvency ratios. Although this combined situation does not currently exist, we expect that premium rates will rise, and our margins and, consequently, profits will increase. For fiscal 1981 we anticipate our pattern of earnings which has evolved over the past two years will continue. Improvement will thus not become apparent until the latter part of the year, but we expect a satisfactory increase in profits over the full period.

Once again our company has benefited immensely from the efforts of our management and staff. I am proud of their accomplishments and the highly professional manner in which they are responding to the challenges of the 1980's. We are fortunate to have such enterprising and dedicated employees and associates throughout our worldwide family of companies. Their loyalty and commitment is appreciated and recognized as one of our great strengths for the years ahead.

annual meeting:
Feb 5 12 noon
Upper Canada.

William M. Wilson
President and
Chief Executive Officer

January 6, 1981

Report on Operations

Canada

Our Canadian operation surpassed its objectives in the past year, with material increases in revenues and profits compared to both the previous period and an optimistic budget. Building on a strong base and a diversity of abilities, we overcame the hazards of an uncertain economy by maintaining high standards of service to existing clients while developing a substantial amount of new business and keeping expenses at proportionate levels.

We were pleased to learn, subsequent to the year-end, that the proposed joint venture with Crosbie and Co. Ltd. of St. John's, Newfoundland, announced earlier, had been approved by the Foreign Investment Review Agency. We also completed two small mergers during the year and two more are close to being finalized. We are not pursuing an indiscriminate expansion program, but we continue to seek associations in growth areas and where we recognize compatible people with particular strengths where we have existing offices. We feel we must be aggressive, but highly selective, in exploring expansion opportunities if we are to maintain our position in this country.

Reed Stenhouse participates in major energy transportation projects internationally, providing risk management advice and arranging insurances.

We are continuing to develop and refine our operations in several fields ancillary to our major activity: the handling of general insurance requirements for our commercial, industrial, institutional and governmental clients.
- Our employee benefits division continues to grow and is anticipating a substantially increased volume of business in the coming year.
- The processing of personal insurances has been reorganized to provide improved service and efficiency.

- We have formed a separate division which designs and implements general insurance programs for commercial retail groups and associations. We believe there is a large market in Canada for this type of activity and the results have been most satisfactory.
- One merger involved a Winnipeg-based firm specializing in personal automobile and homeowners insurance for employee groups. During the year this company opened offices in Vancouver and Regina and plans for additional offices in Edmonton and Toronto are underway. We are now well-positioned to benefit from the increasing interest in this type of insurance.

Notwithstanding our having achieved record results in the past year, we are aiming at higher goals for 1981. These are based, however, on the Canadian economy continuing to benefit from substantial investments in the energy sector; a marked slowdown in oil and gas exploration and development will have a material effect.

Members of senior management, Reed Stenhouse Limited, Canada. Left to right: C. G. E. Gyles, President and Chief Executive Officer; J. S. Horrick, Executive Vice-President and Regional Director, Eastern Division; D. J. Sydor, Financial Director; R. J. Barbary, Regional Director, Ontario Division; F. W. Woodward, Regional Director, Prairies Division; J. R. Wilkins, Executive Vice-President and Regional Director, Western Division.

Members of the Executive Committee, Reed Stenhouse Inc., United States of America. Seated, left to right: P. S. Godfrey, Director, Senior Vice-President and Branch Manager–New York; P. G. Leitch, Director and President and Chief Executive Officer; H. M. Loeb, Jr., Director and Senior Vice-President. Standing, left to right: D. W. Henning, Director and Senior Vice-President; P. H. Goodman, Director and Vice-President, Finance; J. D. Baker, Director, Senior Vice-President and Branch Manager–Houston.

United States of America

A moderate growth in revenue was achieved in the past year, although hampered by materially lower premium rates as well as a softening in the American economy generally. With our continuing investment for future expansion, and the absorption of considerable expense in the development of supportive services utilized throughout the entire organization, the U.S. operations recorded a loss. Aside from these budgeted costs, earnings were reduced by a substantial provision for an overdue account.

As part of our investment in the future, we have augmented considerably our capability to handle aviation accounts. A team of talented individuals has been assembled which, together with our highly respected group in London, provides the potential for a significant penetration of this market.

Similarly, we are building a strong energy group based in Houston, Denver and Los Angeles, with plans for further expansion elsewhere. We already have a strong presence in this market and see it as a particular growth area for the future.

During the year we acquired Balanced Pensions Inc., a company specializing in international benefit and pension planning, enhancing our existing employee benefit operations.

Our long-established marine insurance and average adjusting operation, Great Eastern Associates Inc., enjoyed another very successful year.

In the general insurance field, we completed a merger in New York strengthening our position in that important market place. We are continuing to explore suitable acquisition opportunities in several cities, either to improve our existing position or to enter new centres.

Encouraged by recent successes, particularly with respect to multi-national business, confident of our competitive ability in key growth areas, we look forward to 1981. Although we have established a solid position in the American market, our penetration is still comparatively small; our potential is correspondingly large.

The placement of insurance for aviation risks around the world is an important activity of Reed Stenhouse.

A huge reactor vessel transported to its installation site. Reed Stenhouse arranges insurance for numerous facets of the nuclear industry worldwide.

Reed Stenhouse & Partners Ltd. Bottom row, left to right: H. P. Brookshaw, Associate Director; D. C. French, Director responsible for the Pacific Region; J. B. Devine, Chairman and Managing Director. Middle row, left to right: D. E. Biggs, Associate Director; J. D. Loudon, Director responsible for Employee Benefits and Chairman of European Coordinating Committee; A Shaw, Director responsible for U.K., Africa and Middle East. Standing, left to right: I. Robertson, Financial Director; I. R. Macdonald, Director responsible for Reinsurance, Marketing and Territorial Development; R. P. Barrett, Company Secretary.

The United Kingdom and Republic of Ireland

During the year a regional management structure was set up embracing general insurance broking and benefit consulting with appropriate liaison with our London marketing operation. This realignment has already positively affected both efficiency and expense control.

The results of Reed Stenhouse UK, the group's general insurance broking company, were adversely affected by continuing rate reductions in many principal classes of business and by the downturn in the economy in the United Kingdom. This had an impact on income in the latter part of the financial year. On the positive side, however, the production of new accounts in the United Kingdom during the year reached a high level with progress in the development of multi-national accounts maintained, assisted by the group's ever increasing expertise in the arrangement and management of clients' wholly-owned insurance subsidiaries.

The Board of Reed Stenhouse Ltd., United Kingdom. Seated, left: J. Muirhead, Managing Director; right: A. Shaw, Chairman of the Board. Standing, left to right: I. E. F. Hope, Director responsible for Development and Managing Director of Reed Stenhouse International Ltd.; B. J. Willats, Director and Managing Director of Reed Stenhouse Benefit Consultants Ltd.; D. E. Biggs, Director and Managing Director of Reed Stenhouse Marketing Ltd.; R. P. Lindley, Director responsible for Client Service Operations; R. Lee, Director and Managing Director of Reed Stenhouse Management Services Ltd.; J. W. Gilchrist, Company Secretary.

Reed Stenhouse Benefit Consultants made a satisfactory increase in profits with a substantial growth of income. Both of the exempt unit pension trusts showed good performance and received substantial funds for investment. Late in the year, we acquired the Julian Gibbs Group, which specializes in personal investment plans; it is expected that it will make a significant contribution to profits in the coming period.

While Reed Stenhouse Marketing continued to make an important contribution to the group's results, the highly competitive international environment coupled with the strength of sterling produced a slight downturn in profit compared with last year. A significant development of services, particularly the formation of a strong aviation division, greatly enhances this company's potential for future growth.

Lloyd's Underwriting Agencies

The Lloyd's Underwriting Agency company had another successful year. The managed Syndicates writing Marine, Motor, Employers' Liability and Public Liability business were profitable for the latest closed year and made useful contributions to the company's profit. The Livestock Syndicate suffered a small loss; the Non-Marine Syndicate is now approaching its first closed year.

There is still an excess capacity in the Lloyd's Market which is restricting the ability of the Underwriting Agency to process new applications for membership of Lloyd's.

Sten-Re Ltd.

Sten-Re, the group's reinsurance broking and underwriting management company, again experienced difficult trading conditions as a result mainly of an over-capacity of reinsurance. Premium rates and volumes were consequently depressed, causing a downturn in the company's profit.

During the early part of the financial year, the group increased its shareholding in Canadian-based Universal Reinsurance Intermediaries Limited from 50% to 61%. That company and the U.S. based subsidiary, Sten-Re Cole & Associates Inc., will make a material contribution to growth. In the U.K. the development of a new computer system, which is now taking place, will improve efficiency and profitability.

Unfavourable market conditions are likely to continue during 1981 but in the longer term Sten-Re is well-placed through its geographical spread to benefit from the eventual upturn in economic activity and premium rates.

Senior management, Continental Europe. Left to right: R. A. Décarie, Managing Director of Société Générale de Courtage d'Assurances S.A., France; J. Caviezel, Managing Director of Caviezel A.G., and Reinsurance Underwriting Agency A.G., Switzerland; J. Akerman, Managing Director, J. Akerman A.B., Sweden; J. Morgan, President, N. V. Reed Stenhouse S.A., Belgium.

France

Record profits were produced by Société Générale de Courtage d'Assurances in its 50th. anniversary year.

Income was increased substantially in spite of severe competition and depressed market conditions.

During the past year the company concentrated on strengthening the commercial units, creating a development team and reinforcing the technical departments. It is now well-placed to obtain new business and to increase its profitability.

Belgium

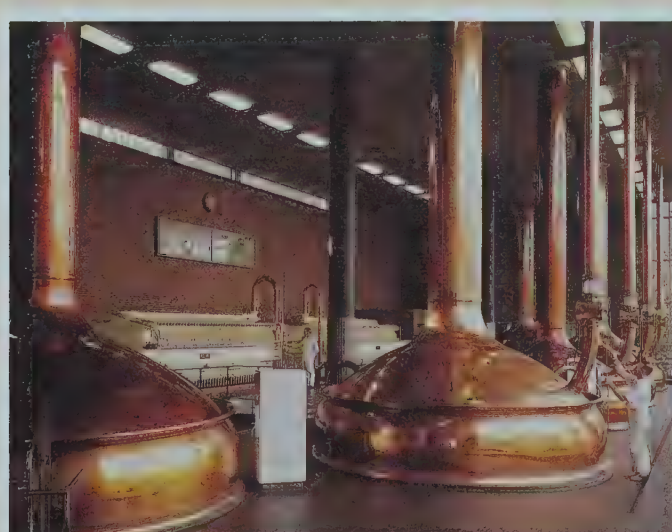
The planning and reorganization undertaken in the past two years have been essentially completed and, combined with important management changes, has resulted in substantially improved profits.

A difficult economic environment must always bring some caution into forecasts for the future, but the Belgian company is now able to go forward from a stable base with an enthusiastic and competent staff who have contributed significantly to the excellent achievements of the past year.

Senior management, South Africa and the Middle East. Left to right: R. J. Field, Chairman of Stenhouse Hogg Robinson (Pty.) Ltd.; R. G. Harrison, Managing Director of Stenhouse Hogg Robinson (Pty.) Ltd.; N. El Khoury, General Manager, Reed Stenhouse Middle East S.A.R.L.

South Africa

The state of the insurance market in South Africa continued to deteriorate and there were further substantial reductions in premium rates. In spite of these conditions, Stenhouse Hogg Robinson achieved a modest increase in profits. The organization was further concentrated during the year and the full benefits should emerge in the coming period.



An increasingly sophisticated array of insurance coverages is provided by Reed Stenhouse to manufacturers in many countries.

Australia and Papua New Guinea

Senior management, Pacific Area. Seated, left: D. C. French, Chairman of Australian, New Zealand and South East Asian companies; right: M. D. Hogan, Managing Director of Reed Stenhouse Ltd., New Zealand. Standing, left: S .F. Leow, Managing Director of Reed Stenhouse Leow Pte. Ltd., Singapore; L. E. Mills, Managing Director of Reed Stenhouse Ltd., Australia.

Despite continued downward pressure on premium rates, the Australia and Papua New Guinea group achieved a satisfactory increase in profit.

With almost all insurance companies now reporting substantial underwriting losses the serious concern for the stability of the industry which was mentioned in last year's report is beginning to be reflected in company failures, mergers and withdrawals from the market, but as yet there have been no real increases in premium rates. While larger investment income from the buoyant stock market has relieved the pressure, the general consensus is that further rationalization must take place.

The emphasis in recent years on new business development and cost control was a major contributor to our improved profit. Income from new accounts was again a record, while staff numbers were reduced for the third successive year through natural attrition. An energy and resource development group has been formed to give increased and specialist service to this major growth sector of the economy.

The momentum gathered in business development and the refinement of administrative procedures in recent years has positioned the group to benefit in a major way from any improvement in the market.

New Zealand and Fiji

Although the insurance market continued to be soft at the commencement of the financial year, it soon stabilized, and as this trend continued for the remainder of the year it had a marked effect on the growth in existing business. Premium growth was further assisted by vigorous development activity which resulted in a record amount of new business. With expenses tightly controlled, the results for the year were highly satisfactory in terms of both income and profit.

The group's subsidiary in Fiji achieved a profit in its third year of operations. Income showed an excellent increase, with new business appointments being almost entirely responsible for the growth. Further consolidation of activities took place during the year and the base has now been established to enable the company to pursue a more vigorous development program.

Reed Stenhouse creates and implements a wide variety of insurance programs for the bulk handling of commodities and their shipment which could involve marine, air and ground transportation.

South East Asia

The year's results reflected continued strong growth in revenue. With expenses contained within budget levels, profit was increased significantly.

It is clear that the group is now starting to reap the benefit of our expansion throughout South East Asia over the last few years. We now have a firmly established network of 18 offices in that area, operating in the fields of direct broking, reinsurance broking and underwriting management.

The region is experiencing strong economic growth which is expected to continue. With our broad spread of offices, we should benefit from this growth in the coming year.

Oil and gas exploration is one of the most urgent and complex of today's challenges. Reed Stenhouse is heavily involved in many phases of insurance for the energy industry around the world.

International Marketing, Development and Services Division

This division was created to co-ordinate the provision of special services to clients, particularly those with international operations. The results for the first full year have been encouraging.

H. J. Harvey,
member of the Board,
Reed Stenhouse Companies Limited –
Director, International Marketing,
Development and Services Division

Our Bermuda group – Insurance Managers Limited and Reed Stenhouse International Insurance Services Limited – was most active, especially in the area of management of captive insurance companies. Eleven such client subsidiary companies were formed during the year under the group's management, and with the increasing recognition of our knowledge and experience in this field we anticipate continuing rapid growth. We are equally enthusiastic about the opportunities available to us with respect to the expanding insurance broking market.

Reed Risk Management Inc., a San Francisco-based team of specialists in several professional fields, available to assist all of our offices worldwide, also enjoyed a busy and successful year. The increasing and changing workload led to a recent reorganization into two segments.

S. L. Kling,
Chairman of the Board,
Reed Stenhouse International Inc.,
U.S.A.

The Risk Analysis Division will continue the company's present activities, performing risk financing analyses based on individual client loss patterns and risk profiles. It also develops customized risk information systems and computer applications for major clients. The Client Services Division will develop specialized expertise and co-ordination of loss control and claims management service for large industrial accounts. It also will monitor computerized systems which simplify the handling of information required for the administration of complex insurance programs.

J-C. Régamey,
President,
Reed Stenhouse International S.A.,
Switzerland

Among the International Division's most rewarding activities has been the development and co-ordination of new international business emanating particularly from the United States. Reed Stenhouse International Inc. provided valuable help to our U.S. offices, and a substantial number of new clients have selected us to look after their foreign and domestic requirements. Complementary to our activities with American multi-national corporations, we have experienced a considerable growth in this field in the United Kingdom and Continental Europe, co-ordinated by our Reed Stenhouse International offices in London and Geneva. The latter have not only provided strong support to our U.S. efforts, but have also obtained broking appointments from several large European organizations. Aside from these successes in the general insurance area, we are also strengthening our international employee benefits capability.

R. N. Lamprecht,
Senior Vice-President,
Reed Stenhouse International Inc.,
U.S.A.

Directors

Eric G. Bale, C.A.
Secretary-Treasurer

John S. Davidson

John B. Devine
Chairman & Chief Executive Officer,
Reed Stenhouse & Partners Ltd.

David C. French
Chairman, Reed Stenhouse Ltd., Australia

Angus Grossart, M.A., LL.B., C.A.

Cedric G. E. Gyles
President & Chief Executive Officer,
Reed Stenhouse Limited, Canada

Harry J. Harvey

Herbert Houghton

Arthur W. John, C.B.E., F.C.A.

Jack M. Moon

The Honourable John P. Robarts, P.C., C.C., Q.C., LL.D.
Chairman of the Board,
Reed Stenhouse Limited, Canada

Raymond C. Strange, A.C.I.I.
Chairman, Stenhouse Reed Shaw
(Underwriting Agencies) Ltd.

James W. Whittall
Chairman of the Executive Committee

William M. Wilson, C.A.
President and Chief Executive Officer

Executive Committee

James W. Whittall
Chairman
Eric G. Bale
John B. Devine
David C. French
Cedric G. E. Gyles
Harry J. Harvey
Herbert Houghton
William M. Wilson

Audit Committee

The Honourable John P. Robarts
Chairman
John S. Davidson
Angus Grossart
Arthur W. John
Jack M. Moon

Transfer Agents and Registrars

The Canada Trust Company in Toronto
Canada Permanent Trust Company in other major Canadian cities

Stock Listings

The Company's Class A common shares trade under the ticker symbol RSS "A" on the following Canadian Stock Exchanges:

The Toronto Stock Exchange
The Montreal Stock Exchange
The Vancouver Stock Exchange

(Incorporated under the Canada Business Corporations Act)

Consolidated Balance Sheet

September 30, 1980 (with comparative figures as at September 30, 1979)

Assets

	1980	1979
	(in thousands)	
Current:		
Cash and bank deposit receipts	**$125,681**	$111,553
Short-term deposits and loans	**13,874**	17,811
Accounts receivable	**299,532**	270,835
Prepaid expenses and other current assets	**10,796**	8,583
	449,883	408,782
Investments:		
Affiliated companies	**8,309**	8,203
Securities on deposit and other quoted investments	**922**	673
Mortgages, loans and other investments (note 5)	**5,302**	3,930
	14,533	12,806
Fixed Assets:		
Land, buildings and building improvements	**20,115**	20,094
Office furniture, equipment and vehicles	**31,774**	23,342
Leasehold improvements	**6,670**	5,391
Total, at cost	**58,559**	48,827
Less accumulated depreciation and amortization	**16,776**	12,756
	41,783	36,071
Intangible Assets:		
Goodwill	**59,842**	56,402
Non-compete covenants	**320**	488
	60,162	56,890
Deferred debit, foreign currency translation	**1,559**	1,190
	$567,920	$515,739

On behalf of the Board:

Director

Eric G. Bale

Director

(See accompanying notes to consolidated financial statements)

Liabilities

	1980	1979
	(in thousands)	
Current:		
Due to banks	**$ 44,205**	$ 32,131
Accounts payable	**345,738**	324,025
Sundry payables and accrued charges	**23,240**	19,209
Income taxes payable	**10,214**	8,275
Term bank loans and notes payable, current portion	**645**	1,210
Deferred income taxes, current portion	**13,176**	11,627
Deferred commissions, current portion	**708**	587
	437,926	397,064
Long-term:		
Term bank loans and notes payable (note 4)	**13,104**	12,549
Income taxes due beyond one year	**3,812**	4,559
Deferred income taxes	**1,896**	2,001
Deferred commissions	**73**	135
Other liabilities	**708**	829
	19,593	20,073
Minority interest	**3,628**	2,456
Shareholders' Equity (note 5):		
Share capital	**15,356**	15,059
Preferred shares of Reed Stenhouse & Partners Limited	**35**	35
Contributed surplus	**14,732**	14,491
Retained earnings	**76,650**	66,561
	106,773	96,146
	$567,920	$515,739

Consolidated Statement of Earnings

For the year ended September 30, 1980 (with comparative figures for 1979)

	1980	1979
	(in thousands)	
Revenues:		
Commissions and fees earned, net	**$208,332**	$179,615
Interest, dividend and rental income	**18,028**	12,950
	226,360	192,565
Operating expenses:		
General	**182,761**	151,945
Depreciation and amortization of fixed assets	**4,698**	3,632
	187,459	155,577
	38,901	36,988
Interest expense:		
Long-term debt	**1,598**	1,828
Other	**1,906**	850
	3,504	2,678
Earnings before income taxes and other items	**35,397**	34,310
Income taxes:		
Current	**16,951**	16,524
Deferred	**406**	878
	17,357	17,402
Earnings before other items	**18,040**	16,908
Add (deduct) other items:		
Equity in earnings of affiliated companies	**832**	338
Minority interests	**(750)**	(254)
	82	84
Earnings before reduction of intangible assets	**18,122**	16,992
Reduction of intangible assets	**(506)**	(407)
Net earnings for the year before extraordinary item	**17,616**	16,585
Extraordinary item:		
Recovery of costs related to Two South Place (note 3)		2,648
Net earnings for the year	**$ 17,616**	$ 19,233

(See accompanying notes to consolidated financial statements)

Consolidated Statements of Retained Earnings and Contributed Surplus

For the year ended September 30, 1980 (with comparative figures for 1979)

	1980	1979
	(in thousands)	
Retained Earnings:		
Balance, beginning of year	**$66,561**	$53,648
Add net earnings for the year	**17,616**	19,233
	84,177	72,881
Deduct dividends paid (note 6)	**7,527**	6,320
Balance, end of year	**$76,650**	$66,561
Contributed Surplus (note 5):		
Balance, beginning of year	**$14,491**	$14,062
Add change during the year	**241**	429
Balance, end of year	**$14,732**	$14,491

(See accompanying notes to consolidated financial statements)

Auditors' Report

To the Shareholders of
Reed Stenhouse Companies Limited

We have examined the consolidated balance sheet of Reed Stenhouse Companies Limited as at September 30, 1980 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

McLintock Main Lafrentz & Co.
Chartered Accountants

Toronto, Canada
December 1, 1980

Consolidated Statement of Changes in Financial Position

For the year ended September 30, 1980 (with comparative figures for 1979)

	1980	1979
	(in thousands)	
Source of funds:		
Operations –		
Net earnings for the year before extraordinary item	**$17,616**	$16,585
Add items not involving working capital:		
Depreciation and amortization of fixed assets	**4,698**	3,632
Increase (decrease) in income taxes due beyond one year and other long-term liabilities	**(1,035)**	1,440
Other	**424**	840
Working capital provided from operations	**21,703**	22,497
Proceeds on disposal of fixed assets		1,014
Net increase in working capital on consolidating a company previously accounted for on equity basis	**779**	
Increase (decrease) in term bank loans and notes payable	**309**	(5,902)
Issue of Class "A" shares for cash (note 5)	**171**	452
Proceeds arising from cancellation of option held on Two South Place (note 3) – applied as follows:		
Reduction of purchase price of Two South Place		2,109
Recovery of costs in prior years related to Two South Place		2,648
	22,962	22,818
Application of funds:		
Non-current assets and liabilities relating to insurance businesses acquired		
Goodwill	**2,076**	1,661
Fixed and other assets	**134**	38
	2,210	1,699
Less:		
Minority interests in businesses acquired	**56**	
Notes payable and other liabilities, long-term portion	**246**	811
	302	811
Net non-current assets acquired	**1,908**	888
Increase in affiliated companies	**1,365**	885
Increase in fixed and other assets	**11,739**	6,484
Price adjustments for goodwill in connection with businesses acquired previously	**39**	(72)
Increase in deferred debit on foreign currency translation	**369**	1,197
Decrease in minority interest in businesses acquired previously	**143**	344
Dividends paid in cash (note 6)	**7,160**	6,267
	22,723	15,993
Net increase in working capital for year	**239**	6,825
Working capital, beginning of year	**11,718**	4,893
Working capital, end of year	**$11,957**	$11,718
Represented by:		
Current assets	**$449,883**	$408,782
Less current liabilities	**437,926**	397,064
Working capital, end of year	**$ 11,957**	$ 11,718

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

September 30, 1980

1. Summary of Significant Accounting Policies

(a) Basis of consolidation:

The accompanying consolidated financial statements consolidate the accounts of Reed Stenhouse Companies Limited and all its subsidiary companies. The merger of Reed Stenhouse Companies Limited and Reed Stenhouse & Partners Limited (formerly A. R. Stenhouse Reed Shaw & Partners Limited), effective October 1, 1972, is accounted for using the "pooling of interests" accounting method. Acquisitions of businesses are accounted for using the purchase method of accounting.

(b) Revenue recognition:

Commission revenue is generally recognized on the effective date of the policies. Where the policy and premium term exceed one year, a portion of the revenue is deferred to subsequent applicable years. Fees for actuarial and other consulting services are recognized when the services are rendered. (General expenses include the costs of servicing clients, which costs are expensed as incurred.)

(c) Foreign currency translation:

Non-current assets and liabilities of the company which are stated in a foreign currency and financial statements of subsidiary companies outside of Canada are translated into Canadian dollars as follows:

(i) At rates of exchange prevailing at the balance sheet date

– assets, other than Two South Place (note 3) and related accumulated depreciation, goodwill and non-compete covenants

– liabilities

(ii) At rates of exchange prevailing at dates of acquisition

– Two South Place (note 3) and related accumulated depreciation

– goodwill and non-compete covenants and related charges against earnings

– preferred shares of Reed Stenhouse & Partners Limited

(iii) At average rates of exchange prevailing during the year

– revenues

– expenses (except for those in (ii) above)

– dividends paid by subsidiary (note 6(b))

Because of circumstances which prevail and affect currencies internationally, the net accumulated unrealized debits and credits arising from exchange translation of balance sheet items are deferred and appear on the balance sheet at September 30, 1980. An unrealized exchange translation debit of $369,000 arising on consolidation in 1980 is included in such deferral.

(d) Investments and marketable securities:

(i) Affiliated companies:

Investments in affiliated companies in which the company exercises significant influence are accounted for on the equity method. Under this method the company's share of the net earnings or loss of such companies for the year is reflected in the consolidated statement of earnings and the investments are carried at cost of shares and advances plus the company's share of undistributed earnings since acquisition.

(ii) Other:

– securities on deposit and other quoted investments, at cost less amounts written off (this value approximates quoted market value)

– mortgages, loans and other investments, at cost

(e) Fixed assets:

Fixed assets are recorded at cost. Leasehold improvements are generally amortized over the terms of the related leases. Depreciation of other fixed assets, except land, is provided over their estimated useful lives at 2% for Two South Place and at rates varying from 10% to 33⅓% for the remainder.

(f) Other assets:

(i) Goodwill:

Goodwill is valued at cost less amounts written off. To comply with generally accepted accounting principles, goodwill on business acquisitions subsequent to March 31, 1974 is amortized on a straight line basis over 40 years (1980 – $312,000; 1979 – $239,000) and goodwill arising before and after that date is reduced when it is considered that there may be a permanent decline in its value (1980 – $26,000; 1979 – nil).

(ii) Non-compete covenants:

The non-compete covenants are recorded at cost, less amortization. Amortization (1980 – $168,000; 1979 – $168,000) is provided on a straight line basis over the terms of the covenants.

(g) Income taxes:

For income tax purposes the Canadian companies are permitted to defer commission revenue in excess of the commission deferred in the accounts; the amount of income tax thus postponed is provided for in the liabilities as "deferred income taxes". Since the company considers the undistributed earnings of foreign subsidiaries and affiliated companies to be permanently invested outside Canada, it does not make provision for income taxes which would become payable if such earnings were remitted to Canada.

(h) Pension plan:

The company and certain of its subsidiaries have contingent obligations for unfunded past service pension benefits estimated at $11,063,000. It is intended that these contingent past service pension obligations be funded and charged against future earnings by payments of various amounts not exceeding $1,284,000 annually over a period of thirteen years with minimal amounts thereafter.

(i) Comparative figures:

Certain 1979 figures have been reclassified to conform with classifications adopted in 1980.

2. Segmented Information

The directors have determined that the company's business consists of one dominant industry segment which is that of providing services as insurance and reinsurance brokers and risk management consultants. In this capacity the company earns commissions, fees and investment income. Revenue is also developed from actuarial and other services in the employee benefits and related fields.

The following information summarizes the company's operations on a geographic basis (in thousands):

1980	Revenues	Operating Profit or (Loss)	Assets
Operating Regions:			
Canada	**$ 77,721**	**$18,809**	**$129,036**
United States of America	**36,429**	**(279)**	**72,541**
United Kingdom and Ireland	**72,645**	**14,121**	**205,188**
Australia, New Zealand and South East Asia	**24,125**	**5,607**	**112,378**
Other	**15,440**	**3,049**	**38,909**
Corporate		**(2,406)**	**9,868**
Total	**$226,360**	**38,901**	**$567,920**
Interest expense		**(3,504)**	
Earnings before income taxes and other items		**$35,397**	
1979			
Operating Regions:			
Canada	$ 66,629	$15,425	$119,847
United States of America	32,829	1,388	71,563
United Kingdom and Ireland	58,114	14,576	186,483
Australia, New Zealand and South East Asia	21,819	4,810	96,234
Other	13,174	2,431	32,219
Corporate		(1,642)	9,393
Total	$192,565	36,988	$515,739
Interest expense		(2,678)	
Earnings before income taxes and other items		$34,310	

3. Extraordinary Item

In 1979, the company accepted a non-taxable payment of $4,837,000 as consideration for the cancellation of its option to return Two South Place, a building which it occupies in London, England, to Stenhouse Holdings Limited, the company's principal shareholder. A portion of the payment, $2,109,000, was applied to reduce the original purchase price of the building to its appraised value at the time of cancellation of the option and the balance of the payment, after deducting expenses of $80,000, was treated as a recovery of costs incurred in prior years relating to the ownership of Two South Place and was reflected as an extraordinary item of $2,648,000 in the consolidated statement of earnings.

4. Term Bank Loans and Notes Payable

(a) Details (with current interest rates at September 30, 1980 indicated) are as follows:

	(in thousands)
Term bank loans	
Due by instalments to October, 1987, payable in U.S. dollars (see (c) below) – interest at London Interbank Market rate on Euro-dollars for various periods, plus 1%, (currently at various rates of approximately 12¼%)	$ 8,336
Due by September, 1984, payable in U.S. dollars – interest at London Interbank Market rate on Euro-dollars for various periods, plus ¾%, (currently at various rates of approximately 14¼%)	3,510
	11,846
Notes payable	
Notes due by instalments to February, 1990, payable in U.S. dollars – interest at various rates not exceeding 8%	1,855
Other	48
	1,903
Less portion due within one year	645
	1,258
	$13,104

(b) Principal due within the next five years is as follows: (in thousands)

1981 – $645; 1982 – $1,728; 1983 – $1,475; 1984 – $4,902; 1985 – $1,263.

(c) Term bank loans:

While certain term bank loans are collateralized by demand notes, the repayment terms are included in (a) and (b) above.

5. Shareholders' Equity

(a) Continuance under the Canada Business Corporations Act:

On June 16, 1980 the company was continued under the Canada Business Corporations Act. Under the provisions of this Act and the company's by-laws, the company is authorized to issue an unlimited number of Class "A", Class "B" and Class "C" shares.

In addition, under the provisions of the Canada Business Corporations Act and the company's by-laws, each Class "A", Class "B" and Class "C" share is without par value. Consequently, capital contributed to the company in excess of the previously established par value of the Class "A", Class "B" and Class "C" shares, amounting to $14,732,000 at June 16, 1980, has been carried forward as contributed surplus. Consideration received on shares issued since June 16, 1980 is allocated to the class of shares to which it is attributable.

No change was made to the rights (see (d) below) of the Class "A", Class "B" and Class "C" shares.

(b) Issued share capital:

1980	Number Issued	Amount
		(in thousands)
Class "A"	**7,031,687**	**$ 7,261**
Convertible Class "B"	**5,832,557**	**5,832**
Convertible Class "C"	**1,131,301**	**2,263**
		$15,356
1979		
Class "A"	6,963,858	$ 6,964
Convertible Class "B"	5,832,557	5,832
Convertible Class "C"	1,131,301	2,263
		$15,059

(c) Changes during the year:

Class "A" shares issued:

	Number	Consideration (in thousands)
For cash under Incentive Stock Option Plan (note 5(h))	25,700	$171
Stock Dividends (note 5(e))	42,129	367
Total issued	67,829	$538

Of the $538,000 consideration received on the issue of Class "A" shares during the year, $279,000 was received for 38,331 Class "A" shares issued prior to June 16, 1980. Since the Class "A" shares had a par value of $1 during that period, $38,331 has been included in Class "A" share capital and $241,000 in contributed surplus. Consideration of $259,000 for 29,498 Class "A" shares issued since June 16, 1980 has been included in Class "A" share capital.

(d) Rights:

Each Class "A", Class "B" and Class "C" share is entitled to one vote. Each Class "B" share may be converted at any time into one Class "A" share. Each Class "C" share may be converted into two Class "B" shares upon the issuance from treasury of one Class "A" share or if the company should dispose of all or a substantial part of its assets or undertaking or if a takeover bid is made to the holders of the Class "A" shares. Class "A" and Class "B" shares are entitled to the same per share dividends and the Class "C" shares are entitled to twice such per share dividend. However, dividends paid on the special preferred shares of Reed Stenhouse & Partners Limited (see (f) below) reduce the dividends paid on the Class "B" and Class "C" shares.

(e) Stock Dividends:

Class "A" shareholders have the option to receive dividends in cash or Class "A" shares of the company. During the year 42,129 Class "A" shares were issued as stock dividends.

(f) Preferred shares of Reed Stenhouse & Partners Limited:

Reflected in the consolidated financial statements as part of shareholders' equity are 15,000 special preferred shares of Reed Stenhouse & Partners Limited, which are held by the company's Class "B" and Class "C" shareholder, with a stated capital value of £15,000 ($35,250), which shares are non-voting and non-participating in winding up or liquidation beyond their paid-up value. Earnings generated by the Reed Stenhouse & Partners Limited group will be available to satisfy the dividend entitlements of the United Kingdom shareholder (the Class "B" and Class "C" shareholder), the intention being to have the Class "B" and Class "C" shareholder receive all or most of the dividends to which it is entitled by way of direct dividends on the special preferred shares.

(g) Senior Executive Stock Purchase Plan:

Under the terms of the plan, eligible participants are entitled to purchase Class "A" common shares from treasury at market prices existing at the date of issue using funds loaned to them by the company for this purpose. Shares purchased under this plan are held by a trustee until the related loans are repaid in full.

At September 30, 1980, loans made in a previous year amounting to $466,800 are included in "mortgages, loans and other investments" and 40,000 Class "A" common shares remain reserved for possible issue under this plan.

(h) Incentive Stock Option Plan:

During the year, a director exercised options on 20,000 Class "A" shares at $6.20 per share and employees exercised options on 5,700 Class "A" shares at $8.33 per share.

At September 30, 1980 share options on 127,252 Class "A" shares, at a price of $8.33 per share and exercisable to December 8, 1982, were outstanding to certain employees. A further 191,774 Class "A" shares remain reserved for possible issue under this plan at prices to be fixed by the directors.

6. Net Earnings Per Share and Dividends

(a) Net earnings per share:

	1980	1979 Before Extraordinary Item	1979 After Extraordinary Item
	(in dollars)		
Class "A"	**1.17**	1.10	1.28
Class "B"	**1.17**	1.10	1.28
Class "C"	**2.34**	2.20	2.56

The earnings per share have been calculated using the weighted monthly average number of shares outstanding during the year (1980 – 15,083,420; 1979 – 15,019,654) which is the sum of the weighted monthly average number of Class "A" and Class "B" shares and twice the weighted monthly average number of Class "C" shares outstanding during the year. The calculations are based on the net earnings as shown by the consolidated statement of earnings. No deduction is made for dividends paid on the special preferred shares of Reed Stenhouse & Partners Limited since, as explained in note 5 (d), such dividends apply to reduce the dividend entitlements of the Class "B" and Class "C" shares.

(b) Dividends:

Dividends paid during the year can be summarized as follows:

	1980	1979
	(in thousands)	
Dividends paid in cash		
Class "A" shareholders: Dividends on Class "A" shares paid by Reed Stenhouse Companies Limited at 50¢ (42¢ in 1979) per share	**$3,127**	$2,858
Class "B" and Class "C" shareholders: Dividends on special preferred shares of Reed Stenhouse & Partners Limited equivalent to 50¢ (42¢ in 1979) per Class "B" share and $1.00 (84¢ in 1979) per Class "C" share	**4,033**	3,409
Dividends paid in cash	**7,160**	6,267
Stock dividends (note 5(e))	**367**	53
Total dividends paid	**$7,527**	$6,320

7. Commitments

(a) Lease:

Commitments under various leases for office premises call for minimum annual rentals within the next five years as follows (in thousands): 1981 – $9,308; 1982 – $8,776; 1983 – $7,807; 1984 – $6,586; 1985 – $5,827.

There are no material capital leases.

(b) Other:

Certain subsidiaries of the company have entered into commitments of $1,862,000 for the purchase of fixed assets and the company and certain of its subsidiaries have entered into agreements to acquire insurance businesses and interests in insurance brokerage companies for consideration of approximately $5,500,000.

8. Related Party Transactions

The company has had no material transactions with related parties during the year ended September 30, 1980.

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